

APR 26 1983

Gentlemen:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(2) of the Internal Revenue Code.

The information submitted discloses that you were incorporated [REDACTED] under the nonprofit laws of the State of [REDACTED].

Your Articles of Incorporation state that your purposes is "...to engage in the business of purchasing, selling, renting, leasing properties...". The information submitted in your application discloses that you were formed to supply, for a fee, equipment used in the operation segment of [REDACTED], known as [REDACTED]. Your present activities include the leasing of vehicles. Your future plans are to obtain, maintain, and provide all types of equipment.

Internal Revenue Code 501(a) exempts from Federal income tax corporations described in 501(c)(2) that are organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which is itself exempt under this section.

The purpose of an organization exempt under section 501(c)(2) of the Code is limited to "...holding title to property...". Therefore, your Article II, of your Articles of Incorporation, does not meet the requirements of section 501(c)(2) of the Code.

Article III of your Articles of Incorporation grants powers broader than those allowed to an organization exempt under section 501(c)(2) of the Code. Therefore, Article III does not meet the requirements for exemption under section 501(c)(2) of the Code.

Section 1.501(c)(2)-1 of the Income Tax Regulations states that an organization cannot be exempt under section 501(c)(2) of the Code if it engages in any business other than holding title to property and collecting income therefrom.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname			[REDACTED]				
Date			4/26/83				

Revenue Ruling 69-278 C.B. 19692, 148 discusses property held by an organization applying for exemption under section 501(c)(2) of the Code. The organization rented trucks to its parent organization. The parent was responsible for fueling, maintaining, and insuring the trucks. The income from these leases is a substantial part of the net earnings of the title holding company, and is turned over to the exempt parent in the same manner as the net earning from building rentals. The rental trucks was determined to be rental of personal property and treated as the conduct of a trade or business, whether with respect to exempt organizations or taxable entities. It was held that the corporation is engaged in the business of renting personal property independent of real property, and therefore, it is not exempt from Federal income tax under section 501(c)(2) of the Code.

Revenue Ruling 60-206, C.B. 1960-1, 201 holds income from rental of tank cars to be unrelated business taxable income to an employee's trust described in section 501(a) of the Code and otherwise exempt under section 501(a), even though the sole activity of the lessor is to receive the rental income, the lessee having the full responsibility for the operation and maintenance of the cars, and their replacement in case of destruction or loss.

Additional evidence that an exempt title holding company may not have income from rental of personalty is that section 1.501(c)(2)-1 of the regulations states that organizations exempt by virtue of section 501(c)(2) of the Code cannot have unrelated business taxable income as defined in section 512, other than unrelated business rental income described in section 514. Section 514 of the Code relates to certain types of indebtedness on real property.

Section 502 of the Code further reinforces this position. That section provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt under section 501 on the ground that all of its profits are payable to one or more organizations exempt under section 501 from taxation.

Your organization was organized and operated to engage in the business of purchasing, selling, renting, and leasing properties. It has been determined that the property is personal property in the form of trucks and other equipment rather than real property. Therefore, we have concluded that you are engaged in a business similar to the above organizations and cannot be exempt from Federal income tax under section 501(c)(2) of the Code. You are required to file Federal income tax returns on Form 1120.

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If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,

████████████████████
District Director

Enclosures
Publication 892
Form 6018